

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL SIX)

Docket No. RM2017-10

REPLY COMMENTS OF THE UNITED STATES
POSTAL SERVICE REGARDING PROPOSAL SIX
(September 22, 2017)

Pursuant to Commission Order No. 4023 (August 1, 2017), comments regarding Proposal Six were submitted on September 15, 2017. Having by separate motion dated today requested leave to respond, the Postal Service hereby submits its reply comments addressing the September 15th comments of the Public Representative.¹ Notwithstanding those comments, the Commission should move forward with the approval of Proposal Six.

In Proposal Six, the Postal Service has presented improved Parcel Select / Parcel Return Service (PRS) mail processing and transportation cost models. These models have been modified to remove sections related to discontinued price categories, correct errors found in some worksheets, and incorporate new data into the analysis. Petition at 1. The Public Representative has submitted comments regarding Proposal Six. Some comments are supportive of the cost model changes recommended by the Postal Service. Other comments indicate that there may be some confusion regarding specific aspects of Proposal Six. The Postal Service is therefore submitting these reply

¹ The only other comments were filed by UPS, and UPS essentially supported the Proposal (although noting a view that perhaps similar additional changes would be beneficial as well). See UPS Comments (September 15, 2017) at 1-2.

comments in order to clarify the record regarding several points the Public Representative made in her comments.

Mail Processing Cost Model

In her discussion of the mail processing cost model, the Public Representative supports the Postal Service's recommendation that the Parcel Select Lightweight (PSLW) machinable and irregular mail processing unit cost estimates be presented in aggregate form in the 'Summary' worksheet. PR Comments at 3. The Postal Service recommended this change due to the fact that the machinable and irregular PSLW prices, which were previously listed separately in the Price List, were combined into one set of aggregate prices in January 2016. Petition at 2. The Public Representative also recommends that "in future filings, the Postal Service should also combine the associated costs in the worksheet 'Volumes.'" PR Comments at 3.

The 'Volumes' worksheet in the mail processing cost model contains no cost estimates. It is therefore assumed that the Public Representative intended to state that the 'Volumes' worksheet should only contain the aggregate PSLW volume data (machinable and irregular volume data combined). While there are no longer distinct PSLW machinable and irregular price categories, these mail pieces incur different mail processing costs because they are not processed through the exact same operations. Consequently, there are separate mail flows in the cost model for PSLW machinable, irregular rolls, and irregular non-rolls parcels. The PSLW machinable and irregular volume data that are currently contained in the 'Volumes' worksheet are used to develop weighted average PSLW model cost estimates using the results from the mail flow worksheets, and should therefore not be removed from the 'Volumes' worksheet.

The previous version of the mail processing cost model contained one Ground mail flow for machinable mail. In the instant proceeding, the Postal Service has proposed that Ground mail flows be added for nonmachinable and oversize parcels. The Public Representative states that "[i]t is not, however, clear why the Postal Service has not previously performed such a disaggregation (considering that in the current mail processing cost model, the mail type percentages for Parcel Select are also available)." PR Comments at 5, note 16. The Ground nonmachinable and oversize mail flows were not intentionally excluded from previous versions of the model. These two mail flows have now been incorporated into the cost model in order to correct an oversight and improve the analysis.

The Public Representative also states that "the Postal Service presents the Full Network price category that replaces the RNDC category." PR Comments at 5. The Full Network price category is not a replacement for the RNDC price category. Previous versions of the Price List contained published prices for both Full Network and RNDC parcels. The current Price List does not contain any published prices for either Full Network or RNDC parcels, but there are still Negotiated Service Agreements (NSA) for Full Network parcels.²

Previous versions of the Parcel Select / PRS mail processing cost model contained RNDC mail flows, but did not contain Full Network mail flows. In Docket No. ACR2016, the Full Network volume was incorporated into the RNDC volume in order to at least reflect the fact that some additional costs were incurred to handle Full Network parcels, although those cost estimates were not precise. In order to improve the PRS

² There are no longer any RNDC NSAs, so there is no need to maintain RNDC mail flows in the mail processing cost model.

cost estimates, Full Network mail flow models have been added to the Parcel Select / PRS mail processing cost model in the instant proceeding. Despite the fact that the RNDC price category no longer exists, the RNDC volume has been combined with the Full Network volume so that the total PRS volume matches the value reported in the CRA. This situation is analogous to how the ONDC and NDC presort volumes were treated in the Parcel Select portion of the mail processing cost model. In Docket No. ACR2017, there will be no question as to how the ONDC, NDC presort, and RNDC volumes should be treated in the mail processing cost model, because there will be no reported volume for these discontinued price categories.

The Public Representative also encouraged the Commission to "request the Postal Service to perform additional 'checking' and cleaning of the model to ensure that it is free of additional errors." PR Comments at 6. In the course of developing a response to ChIR No. 2, question 6, the Postal Service found errors in the 'M-DNDC-5D' and 'IR-DNDC-5D' worksheets, which were both specifically addressed in that question. Following this discovery, the Postal Service reviewed all mail flow worksheets and found errors in three additional worksheets. The required corrections for these five worksheets were described in the response to question 6. While the Postal Service cannot guarantee that there are no errors whatsoever anywhere in the Parcel Select / PRS mail processing cost model, the accuracy of the model's contents were reviewed and verified before the ChIR No. 2 responses were submitted to the Commission.

Transportation Cost Model

In her discussion of the transportation cost model, the Public Representative states that "the Postal Service does not clearly define long-distance, intermediate and local travel." PR Comments at 9. The transportation mode definitions have been in place since the testimony of witness Hatfield in Docket No. R97-1.³ Local costs are the transportation costs that are incurred in transporting parcels between facilities that are within the service area of a processing and distribution center (P&DC), primarily between delivery units and P&DCs. Intermediate costs are the transportation costs incurred in transporting parcels between facilities that are within the service area of a network distribution center (NDC), primarily between P&DCs and NDCs. Long distance costs are the transportation costs incurred in transporting parcels between facilities that are in different NDC service areas, primarily between two NDCs.

The Public Representative claims that the percentage of unexpected transportation legs is "too high considering that these operational circumstances should be relatively rare." PR Comments at 10. However, she cites the "unexpected cost percentage" rather than the "unexpected transportation legs." *Id.* The unexpected cost percentage is driven primarily by the large differences in volume between the different price categories. Because the DDU volume is so much higher than the other price categories, if even a small fraction of these pieces appear on transportation, this will account for a large proportion of the Parcel Select mail found on transportation. The estimated number of unexpected transportation legs is at most 2 percent, which the Postal Service does not consider to be too high.

³ Docket No. R97-1, USPS-T-16 (July 10, 1997) at 4-5.

The Public Representative claims that the Postal Service “does not consider measuring any actual distances between facilities.” PR Comments at 8. Actual distances between facilities are not used to determine whether a mail piece is long-distance or non-long-distance. However, once the piece is designated as long-distance, the costs are distributed between long-distance and non-long-distance according to the cubic-foot-miles, which does incorporate actual distances between facilities for Inter-SCF, Intra-NDC, and Inter-NDC contract types. Furthermore, the current methodology does not consider any actual distances between facilities, so the proposed methodology is an improvement.

The Public Representative also states that “the one-mile average distance for both local and long-distance transportation raises a concern.” PR Comments at 9. As stated in the response to ChIR No. 1, Question 11(b), given the difficulties of maintaining highway mileage files for the very large number of Intra-SCF routes and stops, the distance component of the distribution key is set to one mile for each sampled stop-day for Intra-SCF, instead of using actual distances. This aligns with the approved methodology for producing the Intra-SCF TRACS distribution keys,⁴ so application of the same methodology to distribute the cost between long-distance and non-long-distance should not raise a concern.

The Postal Service disagrees with the statement that the new methodology moves costs from intermediate to long-distance “without any reasonable justification.” PR Comments at 10. For the reasons stated in response to ChIR No. 1, Question 11(a), using the proportion of cubic-foot-miles traveling to a different NDC service area

⁴ USPS-FY16-36

to distribute costs between long-distance and non-long-distance is an improvement over the current methodology that merely uses the number of stops at NDC facilities. The use of empirical data, which can be updated regularly and which more accurately reflect operational realities, is preferred to the use of fixed assumptions, when possible. For these reasons, the Postal Service believes that the proposed modifications would improve the quality and accuracy of the costing methodology and the resulting cost estimates.

To summarize, the Postal Service does not believe that the Public Representative has identified any actual circumstances in which further corrections to Proposal Six are necessary or appropriate. Meanwhile, the Postal Service in these reply comments has provided additional clarification of issues raised by the Public Representative in her comments. Because those were the only apparent impediments to adoption of Proposal Six identified on page 11 of the PR Comments, and because the Postal Service submits that the proposal has been amply justified in the initial filing and in subsequent Information Request responses, the Commission should approve Proposal Six.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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